

dti

Energy Demand Reduction Pilot

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Source of funds

- Budget announced £5 million Capital Grants “to help co-finance with energy companies a pilot study in the use of smart meters and associated feedback devices”.
- In July, further £4.75 million was transferred from Defra to DTI to expand pilot to include energy efficiency and it was re-branded as an energy demand reduction pilot.

Policy background – metering (1)

- Government believes that consumers will be better able to manage their energy consumption if they are better informed about it
- Ministers invited Ofgem to look at this issue and continue to press suppliers for improved billing and metering in July 2005
- Ofgem consultation on metering issued in February 2006. Reviewed international experience, looked at costs and benefits of smarter meters and policy options going forward

Policy background – metering (2)

- Budget announced funds for the pilot in March 2006
- Same month, Government committed to seeking measures to save at least 0.2 MtC by 2010 through better billing and metering
- In May, the EU's Energy Services Directive came in to being, for implementation by May 2008
- Ofgem reported on next steps on metering in June 2006
- In July, the Energy Review was published with various recommendations

Policy background – energy efficiency

- Climate Change Programme, March 2006, gave Defra funds to encourage consumers to take up energy efficiency
- Subsequent decision to transfer £4.75 million to DTI to trial behavioural measures alongside metering
- Climate Change and Sustainability Act 2006
- Defra's consultation on EEC 2008-11
- Supplier obligation to target household emissions from 2011 trailed in Energy Review

Energy Review commitments

- mandate, from 2007, domestic energy bills to show comparative historic energy use
- consult on benchmark comparisons
- consult on frequency of accurate bills
- consult on similar information for NHH business customers
- discuss how best to rapidly roll out the provision of real-time displays
- examine scope for smart metering in the domestic and business sectors

Energy Services Directive

- requires meters that accurately reflect customers' actual energy consumption and its actual time of use, where cost effective (see directive for full detail)
- energy billing is based on actual use and in clear understandable terms
- historical comparisons of energy use and, where appropriate benchmark comparisons
- information from the pilot could help inform implementation of the directive in shorter and longer term

The pilot - purpose

- to help inform the further development of Government policies to reduce energy demand
- to identify cost effective ways to promote billing, metering and energy efficiency in households
- to inform the parallel work being undertaken on implementation of the Energy Services Directive in the UK
- to facilitate the promotion of “behavioural measures” in EEC3 and the post 2011 environment

Pilot - content

- Will consist a range of individual trials covering the following
 - methods to encourage energy efficiency eg information on bills including historical comparisons and benchmarking, display units, energy saving advice and other innovative approaches
 - meters that can be remotely read and provide enhanced billing information (with or without displays)
 - meters that enable “time of day” or “real time” tariff offers to consumers
- Aim for the pilot as a whole, consisting of the individual trials that are funded, to be a balanced set of investigations covering the full range of options, including gas and electricity

Trial design

- statistical soundness of trial will be an important selection criterion
- trials that enable the relative effectiveness of different options to be explored, and the incremental advantage of different actions, very welcome
- key issue for us is understanding cost and benefits of different policy options

Finance (1)

- DTI's allocation is £5 million of capital grants and £4.75 million of current grants
- Flexibility to vire the current grants to capital grants, but not vice-versa
- Capital grants can only be used to support spending classified to capital in companies' own accounts
- Capital grants allocated £4m to 2006/7 and £1m to 2007/8. Current grants all allocated to 2006/7
- But DTI has end year flexibility in disbursement of funds

Finance (2)

- Ofgem will make recommendations to DTI on the acceptance of bids, following discussion with DTI and Defra. DTI take final decisions
- Successful bidders will receive details of their grant funding from DTI (max 50%) and sign contract with DTI
- Grants will be paid on invoices as a proportion of spend, subject to Ofgem confirmation of quality of work
- The cost breakdown in bids must clearly specify when expenditure will occur, including capital and revenue spend.